T-bill debut

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The Ministry of Finance has completed its first Treasury bill issue, offering five tranches ranging from three months to five years and raising S£5bn (US$108m) in total. The exercise has been largely successful from the government's point of view, as it has enabled to tap into a new source of finance on advantageous terms. Private banks took part, but faced strong competition from their state-owned counterparts, which drove the prices of the securities sharply down.

The T-bill programme was a long-awaited development since the original legislation that enabled the issue was passed in 2007. The offerings started on December 13th with the auction of two lots of S£1bn each, one of three-month paper and the other with a six-month maturity. The next three issues—launched one week later—were also of S£1bn each, but with maturities of one year, three years and five years, respectively.

The finance minister, Mohammed al-Hussein, described this initiative as marking the launch of a market in government securities. However, private banks expressed concern about extremely low ceilings for the yields on the bills. This resulted in the auctions for the shorter maturities being won by state-owned banks, which were thereby, in effect, lending to the government at subsidised rates. The ministry stated that the interest rate on the first two issues must not exceed 1% for the three-month bills (4% on an annual basis) and 1.15% for the six-month paper (2.3% on an annual basis)—this is well below the current rate of inflation.

Syrian Treasury bill issues

	Size (S£bn)	**Successful offers**	**Offered (S£bn)**	**Range of offers (annualised)**	**Actual rate achieved (annualised)**
3 month	1	4	2.8	0.8% - 10.4%	1.60%
6 month	1	4	2.1	1% - 6.1%	1.20%
1 year	1	8	2.2	1% - 4%	1.44%
3 years	1	6	1.6	1.45% - 5.5%	1.94%
5 years	1	6	1.6	2.3% - 7%	2.84%

Sources: Ministry of Finance

All of the issues were oversubscribed. The 3-month and 6-month securities were sold to four state-owned banks at 0.4% and 0.6%, respectively (1.6% and 1.2% on an annualised basis). Eleven banks took part in the auctions; evidently some of the private banks disregarded the ceilings as a means to register their view of what a fair market price for the bills should be.

The next auction was held on December 20th, with the ceilings set at annual rates of 1.5%, 2% and 2.5% for the one-year, three-year and five-year paper, respectively. Again all of the offers were oversubscribed and the rates achieved were close to the ceilings, or, in the case of the five-year bill, above the ceiling. The ministry has not provided details of the banks that were involved, but given the number of awarded bids some private banks must have been successful.

The involvement of the private banks is a clear indication of their support for the initiative. Private banks are keen to see the creation of new instruments in which to invest their burgeoning deposits. They are even willing to consider taking returns that are below their average cost of funds—about 3.5%—because any surplus liquidity is currently deposited interest-free with the central bank; according to the most recent monetary data, for July 2010, 16% of total bank assets were held as balances with the central bank.

The caution with which the government is approaching the T-bill issues reflects a general aversion to taking on debt. However, Syria's current debt burden is relatively light, following an agreement reached at the start of 2005 to write off most of what it owed to the former Soviet Union. Total external debt is only 14% of GDP, and net public debt is 34% of GDP, according to the Economist Intelligence Unit estimates. Law 60, covering the Treasury bills, grants considerable latitude to increase government borrowing: it specifies that both domestic and external debt must be below 60% of GDP, and total public debt must not exceed 80% of GDP. The government is embarking on a five-year plan including a target of total investment of S£4trn (US$87bn), to be split evenly between the public and private sectors. In order to have a chance of hitting this target, the government will need to take a more bold approach to issuing new debt than has been evident so far.